

14.474 - Advanced Topics in Public Economics: Tax Reform

The course will meet Mondays and Wednesdays from 10:30-12:00 in E51-390. There will be no meeting on Wednesday September 28. The course requirement is an in-class presentation of a research paper from the reading list or another paper subject to instructor's approval.

1. The Current Tax System in the United States

J. Slemrod and J. Bakija, Taxing Ourselves: A Citizen's Guide to Tax Reform (Cambridge: MIT Press, 2004), Chapter 2.

Joint Committee on Taxation, Estimates of Federal Tax Expenditures for FY 2005-2009 (Washington: Joint Committee).

2. Economic Analysis of Income Tax Expenditures2.1 Employer-Provided Health Insurance

J. Gruber, "Tax Policy for Health Insurance," in J. Poterba., ed., Tax Policy and the Economy, Volume 19 (Cambridge: MIT Press, 2005). (NBER Working Paper 10977)

J. Gruber and M. Lettau, "How Elastic is the Firm's Demand for Insurance?," Journal of Public Economics 88 (2004), 1273-1294.

J. Gruber and J. Poterba, "Fundamental Tax Reform and Employer-Provided Health Insurance," in H. Aaron and W. Gale, eds., Economic Effects of Fundamental Tax Reform (Washington: Brookings Institution, 1996), 125-162.

M. Smart and M. Stabile, "Tax Credits, Insurance, and the Use of Medical Care," Canadian Journal of Economics May 2005, 345-365.

2.2 Tax Treatment of Owner-Occupied Housing

P. Hendershott and G. Pryce, "The Sensitivity of Homeowner Leverage to the Deductibility of Home Mortgage Interest," NBER Working Paper 11489, 2005.

D. Bruce and D. Holtz-Eakin, "Fundamental Tax Reform and Residential Housing," Journal of Housing Economics 8 (1999), 249-271.

M Gervais and M. Pandey, "Who Cares About Mortgage Deductibility," mimeo, University of Western Ontario, 2005.

J. Poterba, "Taxation and Housing: Old Questions, New Answers," American Economic Review 82 (May 1992), 237-242.

### 2.3 Taxes and Charitable Giving

W. Randolph, "Dynamic Income, Progressive Taxes, and the Timing of Charitable Contributions," Journal of Political Economy 103 (1995), 709-738.

### 2.4 Deductibility of State and Local Income and Property Taxes

M. Feldstein and G. Metcalf, "The Effect of Federal Tax Deductibility on State and Local Taxes and Spending," Journal of Political Economy 95 (1987), 447-465.

K. Rueben, "The Impact of Repealing State and Local Tax Deductibility," State Tax Notes (August 15 2005), 497-513.

## 3. Alternative Tax Structures

### 3.1 The Value Added Tax

L. Ebrill, M. Keen, J.-P. Bodin, and V. Summers, The Modern VAT (Washington: International Monetary Fund, 2001), Chapters 1-3.

M. Graetz, "100 Million Unnecessary Returns: A Fresh Start for the U.S. Tax System," Yale Law Journal 112 (November 2002), 261-310.

C. McLure, The Value Added Tax (Washington: American Enterprise Institute, 1988).

### 3.2 The National Retail Sales Tax

S. Cnossen, "VAT and RST: A Comparison," Canadian Tax Journal 35 (1987), 559-615.

W. Gale, "The National Retail Sales Tax: What Would the Rate Have to Be?," Tax Notes (May 16 2005), 889-911.

D. Jorgenson and K.-Y. Yun, Lifting the Burden: Tax Reform, the Cost of Capital, and U.S. Economic Growth (Cambridge: MIT Press, 2001), Chapter 8.

OECD, Taxing Consumption (Paris: OECD, 1988).

### 3.3 The Flat Tax

R. Hall and A. Rabushka, The Flat Tax, 2nd Edition (Stanford: Hoover Institution Press, 1995).

### 3.4 The X-Tax and Cash-Flow Taxes

D. Bradford, Blueprints for Basic Tax Reform (Arlington, VA: Tax Analysts, 1984).

D. Bradford, Fundamental Issues in Consumption Taxation (Washington: American Enterprise Institute, 1996).

D. Bradford, The X-Tax in the World Economy (Washington: AEI, 2004).

M. Graetz, "Expenditure Tax Design," in J. Pechman, ed., Which Should Be Taxed? Income or Expenditure (Washington: Brookings Institution, 1980), 161-276.

### 3.5 Hybrid Tax Systems

W. Andrews and D. Bradford, "Savings Incentives in a Hybrid Income Tax," in H. Aaron, H. Galper, and J. Pechman, eds., Uneasy Compromise: Problems of a Hybrid Income-Consumption Tax (Washington: Brookings Institution, 1988), 269-299.

A. Auerbach, "Should Interest Deductions be Limited?," in H. Aaron, H. Galper, and J. Pechman, eds., Uneasy Compromise: Problems of a Hybrid Income-Consumption Tax (Washington: Brookings Institution, 1988), 195-220.

R. Gordon, L. Kalambokidis, and J. Slemrod, "Do We Now Collect any Revenue from Taxing Capital Income?," Journal of Public Economics 88 (2004), 981-1009.

R. Gordon, L. Kalambokidis, J. Rohaly, and J. Slemrod, "Toward a Consumption Tax, and Beyond," American Economic Review 94 (May 2004), 161-165.

R. G. Hubbard, "How Different are Income and Consumption Taxes," American Economic Review 87 (May 1997), 138-142.

## 4. Efficiency Effects of Tax Reform

D. Altig, A. Auerbach, L. Kotlikoff, K. Smetters, and J. Walliser, "Simulating Fundamental Tax Reform in the United States," American Economic Review 91 (June 2001), 574-595.

A. Auerbach, "Tax Reform, Capital Allocation, Efficiency, & Growth," in H. Aaron & W. Gale, Economic Effects of Fundamental Tax Reform (Washington: Brookings, 1996), 29-73.

- A. Auerbach and L. Kotlikoff, Dynamic Fiscal Policy (Cambridge: Cambridge University Press, 1987), Chapter 5.
- E. Engen, J. Gravelle, and K. Smetters, “Dynamic Tax Models: Why They Do the Things They Do,” National Tax Journal 50 (September 1997), 657-
- D. Jorgenson and P. Wilcoxon, “The Long-Run Dynamics of Fundamental Tax Reform,” American Economic Review 87 (May 1997), 126-132.

## 5. Transition Issues

### 5.1 Depreciation Allowances and Debt Contracts

- D. Bradford, “Transition to and Tax-Rate Flexibility in a Cash-Flow Type Tax,” in J. Poterba, ed., Tax Policy and the Economy, Volume 12 (Cambridge: MIT Press, 1998), 151-172.
- A. Lyon and P. Merrill, “Asset Price Effects of Fundamental Tax Reform,” in K. Hassett and R. G. Hubbard, eds., Transition Costs of Fundamental Tax Reform (Washington: American Enterprise Institute, 2001), 58-91.
- G. Zodrow, “Transitional Issues in the Implementatin of a Flat Tax or a National Retail Sales Tax,” in G. Zodrow and P. Mieszkowski, United States Tax Reform in the 21<sup>st</sup> Century (New York: Cambridge University Press, 2002), 245-283.

### 5.2 Macroeconomic Adjustment Issues

- M. Feldstein, “Would a Consumption Tax Reduce Interest Rates?,” in J. Poterba, ed., Tax Policy and the Economy, Volume 12 (Cambridge: MIT Press, 1998), 173-190.
- R. Hall, “The Effect of Tax Reform on Prices and Asset Values,” in J. Poterba, ed., Tax Policy and the Economy, Volume 10 (Cambridge: MIT Press, 1996), 71-88.
- J. Poterba, J. Rotemberg, and L. Summers, “A Tax-Based Test of Nominal Rigidities,” American Economic Review 76 (September 1986), 659-675.

## 6. Distribution Tables and the Burden of Taxation

- A. Auerbach, “Who Bears the Corporate Income Tax? A Review of What We Know,” in J. Poterba, ed., Tax Policy and the Economy, Volume 20 (Cambridge: MIT Press, 2006).

- J. Cronin, "U.S. Treasury Distributional Analysis Methodology," mimeo, Office of Tax Analysis, U.S. Treasury Department, 1999.
- D. Feenberg, A. Mitrusi, and J. Poterba, "Distributional Effects of Adopting a National Retail Sales Tax," in J. Poterba, ed., Tax Policy and the Economy, Volume 11 (Cambridge, MIT Press: 1997), 49-90.
- D. Fullerton and D. Rogers, Who Bears the Lifetime Tax Burden? (Washington: Brookings Institution, 1993).
- Joint Committee on Taxation, Methodology and Issues in Measuring Changes in the Distribution of Tax Burdens (Washington: Joint Committee on Taxation, 1993, publication JCS-7-93).
- J. Pechman, Who Paid the Taxes: 1966-1985 (Washington: Brookings Institution, 1985).
- J. Poterba, "[Lifetime Incidence and the Distributional Burden of Excise Taxes](#)," American Economic Review 79 (May 1989), 325-330.

## 7. Dynamic Scoring and Revenue Analysis

- A. Auerbach, "Dynamic Scoring: An Introduction to the Debate," American Economic Review 95 (May 2005), forthcoming.
- N. G. Mankiw and M. Weinzierl, "Dynamic Scoring: A Back of the Envelope Guide," NBER Working Paper 11000, 2004.

## 8. The Alternative Minimum Tax

- L. Burman, W. Gale, and J. Rohaly, "The Expanding Reach of the Individual AMT," Journal of Economic Perspectives 17 (2003), 173-186.
- L. Burman and D. Weiner, "Suppose They Took the AM Out of the AMT," Urban Institute Tax Policy Center, Working Paper 25, 2005.
- D. Feenberg and J. Poterba, "The Alternative Minimum Tax and Effective Marginal Tax Rates," National Tax Journal 57 (June 2004), 407-427.
- M. Graetz and E. Sunley, "Minimum Taxes and Comprehensive Tax Reform," in H. Aaron, H. Galper, and J. Pechman, eds., Uneasy Compromise: Problems of a Hybrid Income-Consumption Tax (Washington: Brookings Institution, 1988), 385-418.

## 9. Further Topics

### 9.1 Taxing Financial Institutions

M. Levin and P. Ritter, "Taxation of Financial Intermediation in Industrial Countries," in P. Honohan, ed., Taxation of Financial Intermediation: Theory and Practice for Emerging Economies (Washington: IBRD, 2003), 197-240.

### 9.2 Border Adjustments

M. Feldstein and P. Krugman, "International Trade Effects of Value Added Taxation," in A. Razin and J. Slemrod, eds., Taxation in the Global Economy (Chicago: University of Chicago Press, 1990), 263-282.

### 9.3 Taxation of Multinational Firms

H. Grubert and S. Newlon, "The International Implications of Consumption Tax Proposals," National Tax Journal 48 (1995), 619-647.

### 9.4 The Taxpayer Unit: Household vs. Individual

J. Alm and L. Whittington, "Tax Reduction, Tax Changes, and the Marriage Penalty," National Tax Journal 54 (2001), 455-472.